

## **Climate Talks in Bonn: News and Information**

### **Summary of the Climate Change Agreement in Bonn**

*July 24, 2001*

#### **Overview**

To the surprise of most observers, international climate change negotiators meeting in Bonn, Germany, reached agreement on Monday on most of the key political issues relating to implementation of the Kyoto Protocol. The decision by the Sixth Session (part two) of the Conference of the Parties to the UN Framework Convention on Climate Change, known as COP-6, covers four principal areas: operating rules for emissions trading and other market-based mechanisms established under the Protocol; how the sequestration of carbon by forests and other "sinks" will be credited toward Kyoto emission targets; funding to help developing countries combat and cope with climate change; and mechanisms to encourage and enforce compliance with the Kyoto targets.

Although the agreement resolves most of the high-profile issues, it does not address many more technical issues that will play a significant role in determining the practicability and efficiency of the emissions trading system and Kyoto's other flexibility mechanisms. The negotiation of these more detailed, technical rules will continue during the remainder of the conference and is likely to spill over to COP-7 this fall in Marrakesh. The Protocol will take effect only when ratified by at least 55 countries accounting for at least 55 percent of developed country emissions in 1990.

All countries except the United States, which has announced that it does not intend to ratify the Protocol, hailed the agreement as a major breakthrough. Many countries in their concluding statements spoke of the need to leave the door open for U.S. participation at a later date.

#### **Key Elements**

##### **Mechanisms**

The Protocol establishes three market-based mechanisms aimed at achieving emissions reductions as cost-effectively as possible. They are emissions trading (the buying and selling of emissions credits among Annex I countries, which are those with binding emission targets); joint implementation (allowing one country with a target to receive emissions credit for a specific project undertaken in another country with a target); and the Clean Development Mechanism, or CDM (allowing developed countries to receive emissions credit for financing projects that reduce emissions in developing countries). Key decisions reached this week include:

- No quantitative limits on the use of the mechanisms. Instead, the agreement provides simply that domestic action shall constitute "a significant element" of the effort made by Annex I Parties to reach their targets.
- A 2% levy on CDM projects to support developing country efforts to cope with the impacts of climate change. (The agreement does not place a levy on emissions trading or joint implementation.)
- Nuclear projects under joint implementation and CDM not specifically excluded, but "Annex I parties are to refrain from using" credits generated from such projects.
- Sinks projects will be allowed under the CDM, but will be limited to afforestation and reforestation projects during the first target period (2008-2012). Sinks credits under CDM will be capped at 1% of a country's base-year emissions.
- Simplified modalities and procedures for small-scale CDM projects (including renewable energy and energy efficiency projects).
- A prompt start for CDM through nominations for the CDM Executive Board prior to COP-

7, with a view to election of the Executive Board at COP-7.

- To address the risk of overselling emission credits, each Annex I party must hold back from the market 90% of its allowable emissions, or five times its most recently reviewed emissions inventory, whichever is lower. The former test allows countries whose emissions are higher than their target and who will be net buyers to sell up to 10% of their allowable emissions. The latter test allows countries whose emissions are projected to be below their target to sell their excess credits, but not to sell credits they are expected to need to cover their projected emissions.
- Key issues such as fungibility (allowing credits under all three mechanisms to be treated equally) and unilateral CDM (allowing developing countries to generate credits for projects undertaken on their own) are not addressed in the agreement, and will presumably be taken up in the "technical" negotiations that will resume this week.

## Sinks

The Protocol establishes the principle that countries potentially may receive credit toward their emissions targets for carbon absorbed by forests, soils and other so-called "sinks." However, the Protocol left unresolved precisely what sinks activities would be recognized and how the credits would be calculated. Key decisions this week include:

- Broad activities eligible for sinks credits, including forest management, cropland management and revegetation.
- No overall cap on sink credits. Instead, the compromise agreement establishes specific limits on the various categories of sink activities.
  - For forest management, Appendix Z sets forth country-specific caps for each Annex I country. Japan's forest management cap is 13 million tons (about 4% of its base-year emissions) and Canada's is 12 million tons (about 10% of its base-year emissions). The Appendix Z caps include sinks credits generated through joint implementation.
  - Credits for cropland management, grazing land management and revegetation are not capped, but countries may receive credit only for increased sequestration over 1990 levels.

## Finance

Under both the Convention and the Protocol, developed countries agreed to provide financial resources to developing countries to help them meet their obligations under the treaties and adapt to the adverse effects of climate change. Key elements of this week's agreement include:

- Establishment of three new funds, two under the Convention and one under the Protocol. Contributions to the Convention funds are voluntary. The new funds are as follows:
  - A special climate change fund, to provide assistance for the full gamut of climate change purposes.
  - A least developed country fund to support National Adaptation Programmes of Action.
  - A Kyoto Protocol adaptation fund to be funded by the CDM levy as well as voluntary contributions.
- An acknowledgment of the "need" for "new and additional" funding under the Convention, but no specific funding level identified and no new legal requirement on countries to provide funds.
- A political pledge by the European Union and several other developed countries to contribute \$410 million per year. (This figure includes contributions toward replenishment of the Global Environment Facility). Canada joined this political pledge, but not Japan or Australia.

- Establishment of a new expert group on technology transfer.

## **Compliance**

The Protocol calls for establishment of procedures and mechanisms to address non-compliance with its provisions. This was one of the most contentious issues in Bonn. While final action on a compliance regime was deferred, major elements were defined:

- The legal character of the compliance regime deferred. At the earliest, a compliance agreement establishing a binding regime would be adopted at the first meeting of Kyoto Protocol parties following the treaty's entry into force.
- Consequences for failing to meet an emissions target include the following:
  - Restoration of tons at a rate of 1.3 to 1 (a country must make up its shortfall, plus 30 percent, in the next target period).
  - Suspension of eligibility to sell credits
  - A compliance action plan (CAP).
- Developing countries to hold majority of seats on both the enforcement and facilitative branches of the Compliance Committee. In the absence of consensus, decisions must be approved by a majority of both of developed country and developing country representatives.